

13877

## INTERIM TABLED 2020/21 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

*This report is submitted directly to Council.*

### PURPOSE

To submit to Council for approval, the Interim Tabled 2020/21 Budget and Medium Term Revenue and Expenditure Framework (MTREF) which in terms of all regulatory requirements is submitted earlier due to the current COVID-19 circumstances.

### IDP STRATEGY AND OBJECTIVES

NATIONAL KPA 5 : MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT		
GOALS	OBJECTIVES	STRATEGIES
5.1 Sound Financial And Supply Chain Management	5.1.1 Compliance with financial legislation and policies	5.1.1.1 GRAP compliance
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all financial related policies
		5.1.1.4 Compliance with all MFMA and related local government financial legislation
	5.2.1 Sustainable Financial and supply chain Management	5.2.1.1 Provide continuous Internal Communication on Budget and Financial Management matters
		5.2.1.2 Asset Accounting Management
		5.2.1.3 Accurate and timeous billing and receipting of revenue
		5.2.1.4 Apply Adequate Internal controls
		5.2.1.5 Demand and acquisition management
		5.2.1.6 Contracts and Logistics management
		5.2.1.7 Apply adequate financial management methodologies

### BACKGROUND

The Municipal Finance Management Act (MFMA), 2003 (No 56 of 2003) issues clear guidelines on the contents of the Budget Framework Plan. The Budget Framework Plan for the City of uMhlathuze has been adapted to incorporate these guidelines.

Section 17 of the Act highlights the following issues relating to the contents of the annual budget.

"1) *The annual budget must be a schedule in the **prescribed format** which should include the following:*

- a) *realistically anticipated revenue for the budget year from each revenue source;*
- b) *appropriating expenditure for the budget year under the different votes of the municipality;*
- c) *setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;*

d) *setting out-*

- (i) *both estimated revenue and expenditure by vote for the current year; and*
- (ii) *actual revenue and expenditure by vote for the financial year preceding the current year.*

e) *A statement containing any other information required by Section 215(3) of the Constitution or as may be prescribed.*

2) *The annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed;*

3) *When an annual budget is tabled in terms of Section 16(2), it must be accompanied by the following documents:*

- a) *Draft resolutions-*
  - (i) *Approving the budget of the municipality;*
  - (ii) *Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and*
  - (iii) *Approving any other matter that may be prescribed;*
- b) *measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;*
- c) *a projection of cash flow for the budget year by revenue source, broken down per month;*
- d) *any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of Section 34 of the Municipal Systems Act;*
- e) *any proposed amendments to the budget-related policies of the municipality;*
- f) *particulars of the municipality's investments;*
- g) *any prescribed budget information on municipal entities under the sole or shared control of the municipality;*
- h) *particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;*
- i) *particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;*
- j) *particulars of any proposed allocations or grants by the municipality to-*
  - (i) *other municipalities;*
  - (ii) *any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;*
  - (iii) *any other organs of state; and*

- (iv) any organisations or bodies referred to in section 67(1);
- k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-
  - (i) Each political office-bearer of the municipality;
  - (ii) councillors of the municipality; and
  - (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;
- l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of-
  - (i) each member of the entity's board of directors;
  - (ii) the chief executive officer and each senior manager of the entity; and
- m) any other supporting documentation as may be prescribed."

National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009.

The objectives of the budget formats reforms in terms of these regulations are:

- ❖ To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Municipal Finance Management Act (MFMA).
- ❖ To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
- ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability.
- ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

Specifically, for the 2020/21 Budget, Circulars No 98 (**DMS 1383790**) Annexure L1 issued on 6 December 2019 and 99 (**DMS 1398732**) issued on 9 March 2020 Annexure L2 are included as part of this report. **These circulars need to be read thoroughly by both the Council and the Administration.**

## **DISCUSSION**

The detailed "Batho Pele" Budget document together with the completed Budget **Tables (DMS 1395609)**, Tariff of Charges and the Service Delivery Budget Implementation Plan (SDBIP) (**DMS 1397212**) will only be completed once the Country is out of COVID-19 lockdown.

## CONSOLIDATED OVERVIEW:

**Table 1 Consolidated Overview of the 2020/21 MTREF:**

R thousands	Description	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Tabled Budget 2020/21	Tabled Budget 2021/22	Tabled Budget 2022/23	
Total Operating Revenue		3 198 114	3 430 794	3 636 785	3 877 900	
Total Operating Expenditure		3 292 395	3 485 274	3 673 862	3 852 144	
<b>Surplus/ (Deficit) for the year</b>		(94 280)	(54 480)	(37 077)	<b>25 756</b>	
<b>Total Capital Expenditure</b>		622 906	671 834	593 789	654 376	
<b>TOTAL OPERATING &amp; CAPITAL BUDGET</b>		<b>3 635 642</b>	<b>3 831 780</b>	<b>4 016 015</b>	<b>4 253 020</b>	

**Table 2 - 2020/21 Proposed Tariff increases**

The detailed proposed tariff of charges is not yet available but the overall increases for the 2020/21 financial year is:

Categories	Percentage Increase (%) (Average) 2020/21	Percentage Increase (%) (Average) 2021/22	Percentage Increase (%) (Average) 2022/23
Average for all services	6%	5.5%	5%

The following tables summarise the expenditure and revenue budgets by category and source respectively:

**Table 3 Percentage proportion in revenue by main revenue source**

R thousand	Description	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework					
		Adjusted Budget	%	Budget Year 2020/21	%	Budget Year +1 2021/22	%	Budget Year +2 2022/23	%
<b>Revenue By Source</b>									
Property rates		510 227	16.0%	540 840	15.8%	572 209	15.7%	608 108	15.7%
Service charges - electricity revenue		1 571 924	49.2%	1 666 177	48.6%	1 762 757	48.5%	1 877 909	48.4%
Service charges - water revenue		388 299	12.1%	411 574	12.0%	435 424	12.0%	463 924	12.0%
Service charges - sanitation revenue		105 568	3.3%	111 886	3.3%	118 360	3.3%	124 742	3.2%
Service charges - refuse revenue		110 768	3.5%	117 414	3.4%	124 224	3.4%	130 933	3.4%
Rental of facilities and equipment		10 642	0.3%	11 164	0.3%	11 699	0.3%	12 261	0.3%
Interest earned - external investments		58 000	1.8%	63 000	1.8%	65 000	1.8%	67 000	1.7%
Interest earned - outstanding debtors		109	0.0%	114	0.0%	120	0.0%	125	0.0%
Fines, penalties and forfeits		7 481	0.2%	10 597	0.3%	11 143	0.3%	11 702	0.3%
Licences and permits		3 407	0.1%	3 407	0.1%	3 570	0.1%	3 742	0.1%
Agency services		5 970	0.2%	5 970	0.2%	6 257	0.2%	6 557	0.2%
Transfers and subsidies		390 019	12.2%	424 643	12.4%	456 492	12.6%	496 649	12.8%
Other revenue		35 700	1.1%	64 008	1.9%	69 529	1.9%	74 249	1.9%
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>3 198 114</b>	<b>100%</b>	<b>3 430 794</b>	<b>100%</b>	<b>3 636 785</b>	<b>100%</b>	<b>3 877 900</b>	<b>100%</b>
Total revenue from rates and service charges		2 686 786	84.0%	2 847 891	83.0%	3 012 974	82.8%	3 205 615	82.7%

**Table 4 Percentage proportion in revenue by main expenditure type**

Description R thousand	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2020/21	%	Budget Year +1 2021/22	%	Budget Year +2 2022/23	%
<b>Expenditure By Type</b>								
Employee related costs	859 564	26.1%	986 781	28.3%	1 034 073	28.1%	1 087 004	28.2%
Remuneration of councillors	32 404	1.0%	34 026	1.0%	35 728	1.0%	37 516	1.0%
Debt impairment	31 454	1.0%	35 000	1.0%	36 750	1.0%	38 587	1.0%
Depreciation & asset impairment	441 379	13.4%	474 573	13.6%	505 559	13.8%	546 925	14.2%
Finance charges	67 458	2.0%	79 943	2.3%	82 762	2.3%	84 491	2.2%
Bulk purchases	1 093 949	33.2%	1 139 016	32.7%	1 196 920	32.6%	1 267 357	32.9%
Other materials	119 504	3.6%	143 840	4.1%	150 606	4.1%	145 744	3.8%
Contracted services	363 432	11.0%	289 827	8.3%	300 388	8.2%	307 803	8.0%
Transfers and subsidies	13 755	0.4%	13 778	0.4%	14 329	0.4%	15 007	0.4%
Other expenditure	269 497	8.2%	288 491	8.3%	316 747	8.6%	321 709	8.4%
<b>Total Expenditure</b>	<b>3 292 395</b>	<b>100%</b>	<b>3 485 274</b>	<b>100%</b>	<b>3 673 862</b>	<b>100%</b>	<b>3 852 144</b>	<b>100%</b>

The following tables represent the 2020/21 Tabled Capital Budget:

**Table 5 Proposed Capital Funding:**

Vote Description R thousand	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22
<b>Funded by:</b>				
National Government	173 051	183 857	146 789	165 376
Provincial Government	8 243	—	8 000	8 000
<b>Transfers recognised - capital</b>	<b>181 294</b>	<b>183 857</b>	<b>154 789</b>	<b>173 376</b>
<b>Borrowing</b>	<b>50 608</b>	<b>157 000</b>	<b>143 000</b>	<b>154 000</b>
<b>Internally generated funds</b>	<b>391 004</b>	<b>330 977</b>	<b>296 000</b>	<b>327 000</b>
<b>Total Capital Funding</b>	<b>622 906</b>	<b>671 834</b>	<b>593 789</b>	<b>654 376</b>

**Table 6 - 2020/21 Medium-term capital budget per Vote:**

Vote Description R thousand	Current Year 2019/20	2020/21 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22
<b>Capital Expenditure - Functional</b>				
<b>Governance and administration</b>	<b>58 719</b>	<b>34 690</b>	<b>45 271</b>	<b>50 870</b>
Executive and council	—	130	133	142
Finance and administration	58 719	34 560	45 139	50 728
<b>Community and public safety</b>	<b>91 851</b>	<b>55 380</b>	<b>57 561</b>	<b>62 452</b>
Community and social services	55 777	26 633	23 940	33 357
Sport and recreation	29 734	27 847	32 737	27 976
Public safety	—	900	884	1 119
Housing	6 340	—	—	—
<b>Economic and environmental services</b>	<b>157 172</b>	<b>169 926</b>	<b>117 708</b>	<b>128 357</b>
Planning and development	35 615	3 000	—	—
Road transport	121 557	165 326	116 108	128 357
Environmental protection		1 600	1 600	—
<b>Trading services</b>	<b>315 164</b>	<b>411 839</b>	<b>373 249</b>	<b>412 697</b>
Energy sources	76 054	85 537	78 647	90 663
Water management	158 951	274 093	214 118	259 052
Waste water management	76 559	48 605	77 587	60 482
Waste management	3 600	3 604	2 896	2 500
<b>Total Capital Expenditure - Functional</b>	<b>622 906</b>	<b>671 834</b>	<b>593 789</b>	<b>654 376</b>

The following Annexures will be presented in the Final Tabled Budget submission in April 2020 therefore do not form part of this report:

- **Annexure A (DMS 1399738)** - Budget report that has been prepared using the “Batho Pele City” template;
- **Annexure B1 - B58 (DMS 1395609)** - Municipal Annual Budget and MTREF Supporting Tables;
- **Annexure C (DMS 1396548)** - Tariffs of Charges;
- **Annexure D1 (DMS 1397993)** - Rates Policy;
- **Annexure D2 (DMS 1396572)** - Tariff Policy;
- **Annexure E (DMS 1397212)** - 2020/21 Tabled Capital Budget;
- **Annexure F (DMS 1397212)** Component 1: Monthly projections of revenue to be collected for each source;
- **Annexure G (DMS 1397212)** Component 2: Monthly projections of expenditure (operating and capital) and revenue for each Vote;
- **Annexure H1 – H9 (DMS 1397212)** Component 3: Draft annual projections of service delivery targets and performance indicators for each Vote;
- **Annexure I (DMS 1397212)** Component 4: Ward information for Capital expenditure;
- **Annexure J (DMS 1397212)** Component 4: Ward information for operating expenditure;
- **Annexure K (DMS 1397212)** Component 5: Detailed capital works plan broken down by ward over three years;
- **Annexure L1 (DMS 1383790)** - MFMA Budget Circular number 98 dated 6 December 2019; and
- **Annexure L2 (DMS 1398732)** - MFMA Budget Circular number 99 dated 9 March 2020.

## **ENVIRONMENTAL IMPLICATIONS**

No environmental implications.

## **FINANCIAL IMPLICATIONS**

This is dealt with in detail throughout the Budget Report.

## **LEGAL IMPLICATIONS**

This is dealt throughout the report with references to various Acts and Regulations.

## **COMMENTS OF THE CHIEF FINANCIAL OFFICER**

The recommendations are supported.

The Chief Financial Officer's comments have been provided in the attached presentation contained in **Appendix “A” (DMS 1400770)**.

**RECOMMENDED THAT:**

1. a detailed Tabled Multi-year Medium Term Revenue and Expenditure Framework (MTREF) report be presented to Council in April 2020 with more complete resolutions in light of the COVID-19 Country wide lockdown;
2. the Tabled Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the Municipality for the Financial Year 2020/21 and indicative for the projected outer years 2021/22 and 2022/23 be approved as set out in the Budget Report (**DMS 1399738**) and in the Budget tables A1 - A10 (**Annexure B1 - B13**) (**DMS 1395609**);
3. the Final Integrated Development Plan (IDP) Review for 2020/2120 (**DMS 1344570**) be incorporated into the Tabled 2020/21 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
4. the Tabled 2020/21 Medium Term Revenue and Expenditure Framework aligned with the IDP's Developmental Objectives and Goals and the Municipal Regulation on Standard Chart of Accounts (mSCOA) (Government Gazette 37577 dated 22 April 2014) for the City of uMhlathuze be approved as follows:

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		Adjusted Budget 2020/21	Tabled Budget 2021/22	Tabled Budget 2022/23
Total Operating Revenue	3 198 114	3 430 794	3 636 785	3 877 900
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<b>Surplus/ (Deficit) for the year</b>	<b>(94 280)</b>	<b>(54 480)</b>	<b>(37 077)</b>	<b>25 756</b>
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<b>TOTAL OPERATING &amp; CAPITAL BUDGET</b>	<b>3 635 642</b>	<b>3 831 780</b>	<b>4 016 015</b>	<b>4 253 020</b>

It be further noted that this Budget in as far as the Municipal's administration ability and financial system capability allowed, is Project based.

5. the Tabled Service Delivery and Budget Implementation Plan (SDBIP) 2020/21 (**DMS 1397212**) as submitted be approved;
6. in terms of Section 2(3) of the Local Government: Municipal Property Rates Act the following property rates for the 2020/2021 financial year be approved:

Category	Proposed tariff (from 1 July 2020)	Ratio to Residential Tariff
	<b>C</b>	
Residential Properties	0,0093	1 : 1
Business / Commercial	0,0196	1 : 2,10
Industrial	0,0205	1 : 2,20
Agricultural Properties	0,0023	1 : 0,25
Public Service Purposes (State Owned)	0,0103	1 : 1,10
Public Service Infrastructure	0,0023	1 : 0,25
Public Benefit Organisation Properties	0,0023	1 : 0,25
Mining Properties	0,0214	1 : 2,30
Vacant Land	0,0196	1 : 2,10

7. on application by the relevant rate payers the following rebates be applied subject to the provisions contained in the Rates Policy:
  - Agricultural properties - 5%
  - Non Profit Organisations - 20%
8. the Rates Policy as contained in **Annexure D1 (DMS 1397993)** be approved;
9. in addition to the statutory R15 000 reduction in the valuation on residential properties a further reduction of R115 000 of the valuation on all developed residential properties valued at R 400 000 and below be made;
10. in addition to the reductions in recommendation (9) above and subject to the criteria set out in the Property Rates Policy an additional R200 000 reduction in the value of the primary residential property belonging to a pensioner or a social grantee be made;
11. in accordance with the implementation of the universal approach of the indigent policy improved residential property valued at R130 000 or less will be exempted from refuse and sewer charges. The following sliding scale will be applied for charges on improved residential properties higher than R130 000 on the following basis:
  - a) Properties valued between R130 001 and R170 000 will receive a rebate of 25% in respect of the sewer and refuse charges.
  - b) Properties valued at R170 001 and higher will pay the normal tariff.
12. the amendment of the Tariff of Charges as per **Annexure C (DMS 1396548)** be approved;
13. the Tariff policy as per **Annexure D2 (DMS 1396572)**;
14. any work function or tariff not accommodated in the Tariff of Charges be dealt with as cost plus 20%;
15. in addition to the free 50 units, the indigent customers to be granted additional 300 units that can be bought per month but be capped at 350 units each month;

16. the property rates and tariff adjustments as set out above be dealt in terms of Section 14 of the Local Government: Property Rates Act and Section 24 of the Municipal Finance Management Act 2003;
17. in terms of various policies the following increases in allowances are submitted to Council for approval:

	Approved 2019/20 Tariffs	Proposed Tariffs - 2020/21
	R	R
Standby - Travel allowance	104	109
Standby - Subsistence allowance	68	71
<b>Subsistence allowances</b>		
Daily allowance	147	154
Overnight allowance	197	207
Own accommodation	271	284
Interview candidates	71	74
<b>Accommodation</b>		
All employees	1 232	1 292
All councillors and Section 56 employees	2 065	2 166
Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	3 444	3 613
Ward committee members	1 384	1 452
<b>Indigent Burial Assistance</b>		
Adult	2 717	2 850
Child (1 day to 15 years)	2 065	2 166
Stillborn / foetus	1 413	1 482

18. to ensure that monies are spent efficiently and effectively in the repairs and maintenance environment for both operating and capital budgets, no Repairs and Maintenance budget can be utilized unless each project for repairs and maintenance is utilized strictly in terms of the 2020/21 asset maintenance plan and captured accordingly on the Work Break-down Structure of the uM-SAP system; and
19. to ensure that all capital budgets are spent efficiently and effectively, no approved tenders can proceed unless clearly defined work deliverables are documented in the project and captured accordingly in the Work Break- down Structure on the uM-SAP system.